California Public Employees' Retirement System
Office of Health Plan Administration
P.O. Box 1953
Sacramento, CA 95812-1953
TTY: (916) 795-3240
(916) 795-0041 phone • (916) 795-1513 fax
www.calpers.ca.gov

Agenda Item 6a

March 15, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Extension of the Existing Self-Funded Preferred Provider Organization Contract

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Staff recommends that the Health Benefits Committee: 1) Extend the existing Third-Party Administrator contract for the Self-Funded Preferred Provider Organization to December 31, 2013; and, 2) Defer release of the Preferred Provider Organization Request for Proposal.

IV. BACKGROUND:

Anthem Blue Cross has been the Third-Party Medical Administrator for the Self-Funded Preferred Provider Organization (PPO) Health Plans since January 1, 2008. That contract was awarded for three (3) years (January 1, 2008 to December 31, 2010), with the option to extend the contract two times, for one year for each extension. The Board has exercised both extension prerogatives and the contract is currently set to expire on December 31, 2012.

V. ANALYSIS:

CalPERS is in the midst of major operational, organizational and technological changes, with the mission critical implementation of PSR, the organizational redesign, the development and issuance of the Long-Term Care Third Party Administrator RFP and implementation of Federal health care reform. The staff and management of the Health Benefits Branch are fully engaged in these mission-critical activities which must be completed successfully. These activities are highlighted below:

- The initial phase of PSR is scheduled and on track for launch in September 2011, with additional functionality being implemented in 2012. To the greatest extent possible, a steady-state of operations is needed to most fully support success for these implementations;
- We are embarking on a year-long review of our health benefit design and contracting strategies to ensure that we most effectively and cost-efficiently contract for services. Success of this project will require significant attention from the HBB staff that have the greatest contracting expertise and are the same staff who would be managing the RFP process;

- Federal health care reform also brings extensive regulatory changes for health plans, purchasers and providers that will impact member cost share, provider networks, and eligibility requirements. These factors are still unfolding and will be more stable by 2012;

- The Affordable Care Act creates a standardized benefit design (the Essential Health Benefit) which will delivered through the State exchange and on the individual market. The elements of this benefit design will not likely be known until early 2012; and,

- In 2011, for the first time in 15 years, we will issue an RFP for the reprocurement of our Long-Term Care Program Third Party Administrator. This activity will require significant attention from the senior and executive management of HBB in addition to the Long-Term Care staff for successful development of the Request for Proposal and the execution of the contracting process.

Based on these factors, we believe that the best interests of CalPERS members and beneficiaries are best served by an additional one-year extension of our current contract with Anthem. This extension is consistent with the provisions of Board Resolution No. 92-04B-4.

VI. STRATEGIC PLAN:

This item supports CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

Extending the Third-party Administrator contract for an additional twelve (12) month ensures continued quality service at a reasonable cost, which is provided to approximately 330,000 PPO members.

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KATHY DONNESON, Chief
Office of Health Plan Administration

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KATHLEEN BILLINGSLEY
Assistant Executive Officer
Health Benefits Branch